

**Manning Municipal Gas Department
Independent Auditor's Report
Basic Financial Statements and
Schedule of Findings**

December 31, 2014 and 2013

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**Manning Municipal Gas Department
Officials
December 31, 2014**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Ehlers	Chairperson	June 2019
Randy Facile	Secretary	June 2020
Dixon Cole	Trustee	June 2016
Keith Kelderman	Trustee	Deceased
Alison River	Trustee	June 2018
Aaron Stangl	Trustee	June 2017
Kenneth Spies	Manager	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

March 3, 2015

Independent Auditor's Report

To the Board of Trustees of the
Manning Municipal Gas Department

Report on the Financial Statements

I have audited the accompanying financial statements of the Manning Municipal Gas Department (a municipal utility), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accrual basis of accounting described in Note 1. This includes determining the accrual basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material error, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com

firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

March 3, 2015
Manning Municipal Gas Department
Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manning Municipal Gas Department as of December 31, 2014 and 2013, and the respective changes in its financial position and the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Accounting

As described in Note 1, the financial statements of Manning Municipal Gas Department are prepared on the accrual basis of accounting and intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Gas Department.

March 3, 2015
Manning Municipal Gas Department
Independent Auditor's Report

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Gas Department's basic financial statements.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 33 through 35 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* I have also issued my report dated March 3, 2015, on my consideration of the Manning Municipal Gas Department's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Manning Municipal Gas Department's internal control over financial reporting and compliance.


Murphy & Associates, CPA, P.C.

Manning Municipal Gas Department Management's Discussion and Analysis

The Manning Municipal Gas Department provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Utility is for the year ended December 31, 2013. Management encourages readers to consider this information in conjunction with the Utility's financial statements, which follow.

2014 Financial Highlights

The Utility's revenue activity increased 14%, or \$183,705 from 2013 to 2014.

The Utility's expenses increased 27%, or \$274,192 from 2013 to 2014.

The Utility's net position of business type activities increased 5%, or \$193,555 from December 31, 2013 to 2014.

Using This Annual Report

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Financial Statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Gas Department as a whole and present an overall view of the Utility's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Manning Municipal Gas Department Management's Discussion and Analysis

Reporting the Utility's Financial Activities

Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position report information, which helps answer this question. These statements included all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents all the Utility's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents information showing how the Utility's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position report the following activity:

Business type activities include the gas utility. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has one fund:

Proprietary funds account for the Utility's Enterprise Fund. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position. The Enterprise Fund includes the gas utility, considered to be the major fund of the Utility.

Manning Municipal Gas Department Management's Discussion and Analysis

The financial statements required for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in fund net position as well as a statement of cash flows.

Basic Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for business type activities.

Net Position at Year-end

Business Type Activity - Enterprise Fund

	<u>Year Ended</u>	
	<u>12/31/14</u>	<u>12/31/13</u>
Current assets	\$ 3,034,548	\$ 2,773,110
Capital assets	579,633	573,134
Other assets	500,000	579,234
Total assets	<u>\$ 4,114,181</u>	<u>\$ 3,925,478</u>
Current liabilities	<u>\$ 106,212</u>	<u>\$ 111,064</u>
Net position:		
Net Investment in capital assets	\$ 579,633	\$ 573,134
Assigned	457,400	406,800
Unrestricted	2,970,936	2,834,480
Total net position	<u>\$ 4,007,969</u>	<u>\$ 3,814,414</u>

Current assets constitute 74% of total assets and exceed current liabilities by thirty-eight to one. Capital assets constitute 14% of total assets and represent the cost of infrastructure, buildings and equipment and is reported net of accumulated depreciation. Other assets constitute 12% of total assets and consist of the long term portion of notes receivable from the City of Manning and Manning Municipal Cable and Television System Utility. Net position of business type activities increased by \$193,555 from 2013.

**Manning Municipal Gas Department
Management's Discussion and Analysis**

Changes in Net Position
For the Year ended December 31,

Business Type Activity - Enterprise Fund

	<u>2014</u>	<u>2013</u>
Revenues:		
Charges for services	\$ 1,476,761	\$ 1,279,724
Interest income	21,584	26,733
Miscellaneous income	3,211	11,394
Total revenues	<u>1,501,556</u>	<u>1,317,851</u>
Operating expenses:		
Purchased gas	778,348	567,502
Distribution operations	149,623	139,070
Administrative and general	288,236	304,680
Total operating expenses	<u>1,216,207</u>	<u>1,011,252</u>
Other expenses:		
Community contributions	91,794	22,557
Total expenses	<u>1,308,001</u>	<u>1,033,809</u>
Increase in net position	193,555	284,042
Net position, beginning of year	<u>3,814,414</u>	<u>3,530,372</u>
Net position, end of year	\$ <u>4,007,969</u>	\$ <u>3,814,414</u>

Total revenues increased by \$183,705, or approximately 14% for the year ended December 31, 2014. Residential, commercial and interruptible gas sales all increased approximately 23% due primarily to cold. Large volume gas sales to a local coop decreased 8% principally due to less seasonal demand for drying services.

The gross profit on gas sales was 47% for 2014, 55% for 2013 and 2012, and 54% for 2011. The 8% decrease in gross profit for 2014 was due to increased demand charges but delayed margin increases till 2015. Residential and commercial gas margins are relatively higher than for interruptible and large volume customers and constitute 68% and 32%, 67% and 33% of gas sales, for the years ended December 31, 2014 and 2013, respectively.

Manning Municipal Gas Department Management's Discussion and Analysis

Total expenses increased by approximately \$274,000, or 27% for the year ended December 31, 2014. Purchased gas expense increased by approximately \$211,000 or 37% from 2013. Distribution expenses increased by approximately \$10,500 or 7%, administrative and general expenses decreased by approximately \$16,000, or 11%, and contributions for local economic development increased by approximately 307%, or \$69,000.

As a result of the above mentioned factors, the Gas Department posted a \$193,555 increase to net position for the year ended December 31, 2014.

Budgetary Highlights

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Manning Municipal Gas Department for the period July 1, 2013 to June 30, 2014.

The Utility presents its budgetary information on a cash basis for the period January 1 to December 31, 2014. Disbursements did not exceed the final budgeted amounts.

Future Financial Statement Impact

Natural gas supplies continue to be plentiful, usage steady and prices favorable through 2015 and beyond. Any local expansion is hindered by the lack of industry pipeline infrastructure to meet area demand.

Requests for Information

Requests for additional information can be made to the Manning Municipal Gas Department's manager, Ken Spies, 715 Third Street, Manning, Iowa 51455.

Basic Financial Statements

Exhibit A

**Manning Municipal Gas Department
Statements of Net Position
December 31, 2014 and 2013**

ASSETS

	2014	2013
Current Assets		
Unrestricted		
Cash	\$ 311,998	\$ 277,396
Investments	1,936,480	1,675,403
Accounts receivable, net of allowance	164,572	193,693
Other receivable	851	464
Unbilled usage	99,056	94,019
Accrued interest receivable	12,100	14,622
Inventory	96,066	85,968
Prepaid expenses	6,025	4,745
Notes receivable, other municipal departments - current portion	-0-	20,000
Total unrestricted current assets	<u>2,627,148</u>	<u>2,366,310</u>
Restricted		
Customer deposits	7,400	6,800
Investments	400,000	400,000
Total restricted current assets	<u>407,400</u>	<u>406,800</u>
Total current assets	3,034,548	2,773,110
Property and Equipment		
Land, plants and mains	1,274,369	1,251,771
Warehouse	71,722	71,722
Shop equipment	111,986	111,986
Office equipment and fixtures	48,030	46,158
Office improvements	68,126	41,101
Transportation equipment	68,408	68,408
Border station	16,232	16,232
	<u>1,658,873</u>	<u>1,607,378</u>
Less accumulated depreciation	1,079,240	1,034,244
Total property and equipment	<u>579,633</u>	<u>573,134</u>
Other Assets		
Notes receivable, other municipal departments net of current portion	500,000	579,234
Total assets	<u>\$ 4,114,181</u>	<u>\$ 3,925,478</u>

See accompanying notes to financial statements

Exhibit A
Continued

Manning Municipal Gas Department
Statements of Net Position
December 31, 2014 and 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 80,921	\$ 84,711
Accrued vacation and sick leave payable	13,943	15,629
Sales and use taxes payable	3,256	3,254
Property taxes payable	692	670
Total payables from unrestricted current assets	<u>98,812</u>	<u>104,264</u>
Payable from restricted current assets:		
Customer deposits	<u>7,400</u>	<u>6,800</u>
Total current liabilities	<u>106,212</u>	<u>111,064</u>
Net Position		
Net investment in capital assets	579,633	573,134
Assigned for:		
Fire station	50,000	-0-
Customer deposits	7,400	6,800
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	<u>2,970,936</u>	<u>2,834,480</u>
Total net position	<u>4,007,969</u>	<u>3,814,414</u>
Total liabilities and net position	<u>\$ 4,114,181</u>	<u>\$ 3,925,478</u>

See accompanying notes to financial statements

Exhibit B

**Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Fund Net Position
For the years ended December 31, 2014 and 2013**

	2014	2013
Operating Revenues		
Gas sales		
Residential	\$ 701,688	\$ 590,990
Commercial	297,575	244,646
Interruptible	202,536	138,627
Large volume	258,371	280,430
Total gas sales	1,460,170	1,254,693
Merchandise sales, net of cost	8,364	16,868
Service calls	2,985	2,415
Other revenue	5,242	5,748
Total	16,591	25,031
Total operating revenue	1,476,761	1,279,724
Operating Expenses		
Purchased gas	778,348	567,502
Distribution expenses		
Management labor	40,992	35,747
Line labor	91,514	90,026
Chemicals	2,460	-0-
Maintenance materials and supplies	3,100	2,497
Transportation and freight	6,010	7,175
Education	137	20
Miscellaneous	5,410	3,605
Total distribution expenses	149,623	139,070
Administrative and general expenses		
Advertising	262	257
Bad debts	-0-	1,285
Depreciation	44,996	40,979
Dues	7,947	7,144
Group insurance	42,399	60,040
Insurance - general	17,855	16,153
Integrity management	653	768
Maintenance - copiers and computers	3,299	8,659
Meeting and travel	26	-0-
Miscellaneous	7,133	1,119
Manager labor	37,467	42,434

Exhibit B
Continued

Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Fund Net Position
For the years ended December 31, 2014 and 2013

	2014	2013
Operating Expenses - continued		
Administrative and general expenses - continued		
Office wages	\$ 48,946	\$ 50,723
Office supplies and maintenance	3,026	2,466
Official publications	1,155	1,093
Payroll taxes	16,502	16,212
Retirement contributions	18,875	18,236
Professional services	7,362	7,322
Real estate taxes	707	663
Rebate program/comfort plus homes	7,400	5,900
Safety	54	-0-
Trustees	2,946	2,995
Utilities, rent, city assessment	19,226	20,232
Total administrative and general expenses	<u>288,236</u>	<u>304,680</u>
Total operating expenses	<u>1,216,207</u>	<u>1,011,252</u>
Operating income (loss)	260,554	268,472
Non-operating Revenues (Expenses)		
Interest income	21,584	26,733
Miscellaneous income	3,211	3,194
Gain on sale	-0-	8,200
Contribution - Housing Rehab Project	(2,475)	(3,806)
Contribution - Economic Development	(38,750)	(18,000)
Contribution - Project Trees	(569)	(551)
Contribution - Home Fitness Program	-0-	(200)
Contribution - Fire Station	(50,000)	-0-
Net non-operating revenues (expenses)	<u>(66,999)</u>	<u>15,570</u>
Change in net position	193,555	284,042
Net position, beginning of year	<u>3,814,414</u>	<u>3,530,372</u>
Net position, end of year	\$ <u>4,007,969</u>	\$ <u>3,814,414</u>

See accompanying notes to financial statements

Exhibit C

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,453,064	\$ 1,229,131
Cash payments for goods and services	(920,042)	(705,772)
Cash payments to employees	(220,605)	(216,807)
Net cash provided by operating activities	<u>312,417</u>	<u>306,552</u>
Cash Flows From Capital and Related Financial Activities:		
Non operating income received	3,211	3,194
Change in customer deposits	600	(125)
Sale of assets	-0-	8,200
Acquisition and construction of capital assets	(46,451)	(52,957)
Net cash used for capital and related financing activities	<u>(42,640)</u>	<u>(41,688)</u>
Cash Flows From Investing Activities:		
Interest received	19,062	30,932
Community contributions	(91,794)	(22,557)
Note payments received	99,234	20,000
Net cash used for investing activities	<u>26,502</u>	<u>28,375</u>
Net increase in cash	296,279	293,239
Cash, Beginning of year	<u>2,359,599</u>	<u>2,066,360</u>
Cash, End of year	\$ <u>2,655,878</u>	\$ <u>2,359,599</u>

See accompanying notes to financial statements

Exhibit C
Continued

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 260,554	\$ 268,472
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	44,996	40,979
Net (increase) decrease in:		
Accounts receivables and unbilled usage	23,697	(50,593)
Inventories	(10,098)	16,124
Prepaid expenses	(1,280)	(548)
Net increase (decrease) in:		
Accounts payable	(3,790)	29,345
Accrued wages and vacation payable	(1,686)	2,123
Sales and use tax payable	2	674
Other accrued expenses	22	(24)
Net cash provided by operating activities	\$ <u>312,417</u>	\$ <u>306,552</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statements of Net Position		
Current assets:		
Cash	\$ 311,998	\$ 277,396
Investments	1,936,480	1,675,403
Restricted assets:		
Depreciation reserve	300,000	300,000
Capital improvements	100,000	100,000
Customer deposits	7,400	6,800
Total cash	\$ <u>2,655,878</u>	\$ <u>2,359,599</u>

See accompanying notes to financial statements

Notes to Financial Statements

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Gas Department is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Gas Department has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

The financial statements include only those funds of the Gas Department and are not intended to present all funds of the City of Manning, Iowa.

B. Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation, Templeton Manning Joint Gas Service Utility Board, Aspinwall Manning Joint Gas Service Utility Board, Iowa Municipal Utilities Association, Clayton Energy Buying Group, and American Public Gas Association.

C. Nature of Business

Formed as a Utility in 1961, the Manning Municipal Gas Department distributes natural gas to the residents and businesses of Manning, Iowa. In 1992, the Gas Department expanded distribution to Templeton, Iowa and, in 1997, to Aspinwall, Iowa. The Utility's revenues are dependent upon the economic condition of its residential and commercial customers.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund of the Gas Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility Board's principal ongoing operations. The principal operating revenues of the Gas Department are charges to customers for sales and service. Operating expenses for the Gas Utility include the cost of sales and services, administration expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Department maintains its accounting records on the basis of cash receipts and disbursements. For financial reporting purposes, accruals are recorded in conformity with U.S. generally accepted accounting principles.

The Statement of Net Position presents the Gas Department's assets and liabilities, with the difference reported as fund net position. Net position is classified as follows:

Net Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those capital assets.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the board of trustees intends to use for specific purposes.

Unrestricted - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended December 31, 2014, disbursements did not exceed amounts budgeted.

F. Cash and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposit. For purposes on the Statement of Cash Flows, the Gas Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

G. Accounts Receivable

Accounts receivable are presented at their net realizable values. The allowance for doubtful accounts is \$612 at December 31, 2014 and 2013.

Customer meters are read monthly. Manning customers are billed the 1st of the month and Templeton, Aspinwall and AGP customers are billed on the 15th of each month. Collection procedures are determined by Commerce Commission Rules as follows: normal customers have twenty days to remit payment whereas budget plan customers have thirty days. No surcharges or interest charges are added to delinquencies. Shut off procedures also differ by season: April 1st through October 31st favor the Utility while November 1st through March 31st favor the consumer.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013**

(1) Summary of Significant Accounting Policies (Continued)

H. Unbilled Usage

The Utility estimates unbilled usage by prorating the total billing based on the number of days still in the accounting period versus the total number of days in the billing period.

I. Inventory

Material and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

J. Restricted Assets

The Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

K. Capital Assets

Capital assets include property, plant and equipment. Capital assets are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. The Utility records a half year's depreciation in both the year of acquisition and retirement and is computed over the following useful lives:

Plant and mains	30-40 years
Office and shop equipment	5-10 years
Vehicles	5 years
Warehouse and office improvements	20 years
Border station - odorizer	20 years

Expenses for maintenance, repairs and minor replacements are charged to operations. Expenses for major repairs and betterments are charged to property, plant and equipment accounts.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

L. Customer Deposits

Meter deposits are collected from new customers prior to connection. Customers in good standing are eligible to receive a deposit refund after one year.

M. Operating Revenues

Revenues are based on billing rates applied to customer usage. Meters are read monthly. Western Consulting Inc, calculates the rate to charge per MCF on a monthly basis.

N. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financials statements, no material changes to the estimates used therein were anticipated by management in the near term.

(2) Cash and Investments

The Utility Board's deposits in banks at December 31, 2014 and 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utility Board is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(2) Cash and Investments (Continued)

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the need and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No 40.

The Utility's cash and investments at December 31, 2014 and 2013 are as follows:

	<u>Cash</u>	<u>Certificates of Deposit</u>
December 31, 2014		
Unrestricted	\$ 311,998	\$ 1,936,480
Restricted	7,400	400,000
	<u>\$ 319,398</u>	<u>\$ 2,336,480</u>
December 31, 2013		
Unrestricted	\$ 277,397	\$ 1,675,403
Restricted	6,800	400,000
	<u>\$ 284,197</u>	<u>\$ 2,075,403</u>

(3) Restricted Assets

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenue for the following purposes:

	<u>2014</u>	<u>2013</u>
Customer Deposits - Cash	\$ 7,400	\$ 6,800
Depreciation Reserve - Certificates of Deposit	300,000	300,000
Capital Improvement Reserve - Certificate of Deposit	<u>100,000</u>	<u>100,000</u>
	<u>\$ 407,400</u>	<u>\$ 406,800</u>

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(4) Capital Assets

Capital assets activity for the year ended December 31, 2014 is summarized as follows:

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14
Land	\$ 2,500	\$ -0-	\$ -0-	\$ 2,500
Plants and mains	1,249,271	22,598	-0-	1,271,869
Warehouse	71,722	-0-	-0-	71,722
Shop equipment	111,986	-0-	-0-	111,986
Office equipment	46,158	1,872	-0-	48,030
Office improvements	41,101	27,025	-0-	68,126
Transportation	68,408	-0-	-0-	68,408
Border station	16,232	-0-	-0-	16,232
	<u>1,607,378</u>	<u>51,495</u>	<u>-0-</u>	<u>1,658,873</u>
Less: accumulated depreciation	<u>1,034,244</u>	<u>44,996</u>	<u>-0-</u>	<u>1,079,240</u>
Capital assets, net	\$ <u>573,134</u>	\$ <u>6,499</u>	\$ <u>-0-</u>	\$ <u>579,633</u>
Depreciation charged to operations				\$ <u>44,996</u>

(5) Related Party Transactions

<u>Water Tower Note</u>	<u>2014</u>	<u>2013</u>
Unsecured note receivable from the City of Manning, due in annual installments of \$20,000 plus interest until principal is paid on October 1, 2018. The interest rate is adjusted each January 1 st to 1% higher than the maximum rate offered by Templeton Savings Bank on a twelve month certificate of deposit. The note financed water tower construction and repairs. The interest rate on January 1, 2014 was 1.50%.	\$ -0-	\$ 99,234

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013**

(5) Related Party Transactions (Continued)

<u>MMCTSU Note</u>	<u>2014</u>	<u>2013</u>
Note receivable from the Manning Municipal Communications and Television System Utility to be used for broadband communications system. The interest rate is adjusted on July 15 th each year to a rate which is 1% higher than that offered by Templeton Savings Bank on a twelve month certificate of deposit. The interest rate on July 15, 2014 was 1.50%. Interest does not accrue on the unpaid interest balance, there are no required principal payments, and payments of principal and interest may not exceed \$100,000 per year.	\$ <u>500,000</u>	\$ <u>500,000</u>
	500,000	599,234
Less: current portion	<u>-0-</u>	<u>20,000</u>
Long-term portion	\$ <u>500,000</u>	\$ <u>579,234</u>

Municipal Officials

For the years ended December 31, 2014 and 2013, the Manning Municipal Gas Department paid businesses owned by employees or officials of the Gas Utility for the following:

	<u>2014</u>	<u>2013</u>
Supplies	\$ <u>887</u>	\$ <u>285</u>

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(6) Compensated Absences

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to an average pay period. Sick leave benefits are calculated at their current rate of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment. Sick leave payable at December 31, 2014 and 2013 was \$4,996 and \$5,033, respectively.

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of employment. Vacation payable at December 31, 2014 and 2013 was \$8,947 and \$10,596, respectively.

(7) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

IPERS rates remained unchanged during the year ended December 31, 2014. Plan members contributed 5.95% of their annual covered salary and the Utility contributed 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2014 and 2013 were \$18,875 and \$18,237, respectively, equal to the required contributions for each year.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(8) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a high-deductible health plan which provides medical/prescription drug benefits for employees and retirees and their spouses. Employees that provide proof of insurance elsewhere can elect to opt-out of coverage and receive a payment-in-lieu of insurance. There are 4 active members, -0- retired, and 1 opt-out in the plan. The medical/prescription drug benefits are provided through a high-deductible health plan with Wellmark.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently funds the retiree benefit plan on a pay-as-you-go basis and pays 100% of both single and family coverage. The Utility also contributed 50% of the deductible into participating employees' health savings accounts. Monthly premiums were \$411 for employee only, \$843 for employee/spouse, \$779 for employee/children, and \$1,263 for employee/spouse/children. Those premiums were for \$2,500/\$5,000 deductibles and out-of-pocket maximums of \$2,500/\$5,000. Employees that opt-out receive a \$450 monthly stipend less any coverage retained through the Utility (i.e., disability, life, dental, etc). For the year ended December 31, 2014, the Utility contributed \$38,643 toward the health insurance plan and plan members eligible for benefits contributed \$-0- to the plan. Additionally, the Utility contributed \$7,500 toward Health Savings Accounts and paid \$5,400 in lieu of insurance.

(9) PURCHASE COMMITMENT

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Wahoo, Nebraska whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

(10) Long Term Transportation Agreement

The Manning Municipal Gas Department entered into a long term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.

(11) 28E Agreements

The Board of Trustees approved on September 13, 2007 to enter into an agreement under Iowa Code Chapter 28E to establish an agency to be known as the Public Energy Financing Authority, an Iowa Joint Powers Agency. The purposes of the Agency are to acquire and procure energy resources, or the rights to acquire thereto, including in particular natural gas and electric energy, and to provide for the transportation, transmission, distribution, sale and/or storage thereof in and to each member's service area.

The Gas Utility also has 28E Agreements with the Cities of Templeton and Aspinwall to provide natural gas services, construct and maintain gas distribution lines, and to collect, account for, and remit surcharges to the two cities.

(13) Risk Management

Manning Municipal Gas Department is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(14) Contingencies and Uncertainties

The Utility provides health care benefits to employees under a self insurance, reinsured plan. The Company's maximum exposure for 2014 under the re-insurance plan is approximately \$14,000.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2014 and 2013

- (15)** The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27. This statement will be implemented for the year ending December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

Manning Municipal Gas Department
Budgetary Comparison Schedule of Revenues, Expenses and
Changes in Balances – Budget and Actual (Cash Basis)
For the Year Ended December 31, 2014

	<u>Accrual Basis</u>	<u>Accruals</u>	<u>Cash Basis</u>
Receipts:			
Gas sales	\$ 1,476,761	\$ (23,697)	\$ 1,453,064
Non-operating	24,795	(2,522)	22,273
Total receipts	<u>1,501,556</u>	<u>(26,219)</u>	<u>1,475,337</u>
Expenditures:			
Purchased gas	778,348	9,625	787,973
Distribution	149,623	(657)	148,966
Administrative	288,236	(84,528)	203,708
Non-operating	91,794	-0-	91,794
Contingency	-0-	-0-	-0-
Total expenditures	<u>1,308,001</u>	<u>(75,560)</u>	<u>1,232,441</u>
Change in net position	193,555	\$ <u>49,341</u>	\$ <u>242,896</u>
Net position, beginning of year	<u>3,814,414</u>		
Net position, end of year	\$ <u>4,007,969</u>		

See accompanying independent auditor's report.

Original and Final <u>Budget</u>		Final to Actual <u>Variance</u>	
\$	1,650,000	\$	(196,936)
	-0-		22,273
	<u>1,650,000</u>		<u>(174,663)</u>
	952,000		164,027
	245,000		96,034
	383,000		179,292
	-0-		(91,794)
	70,000		70,000
	<u>1,650,000</u>		<u>417,559</u>
\$	<u>-0-</u>	\$	<u>242,896</u>

Manning Municipal Gas Department
Notes to Other Information -
Budgetary Reporting
December 31, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Utility adopts and submits a budget on the cash basis to the City for approval in the City's required public notice and budget hearing process. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

For the year ended December 31, 2014, the budget was not amended and the disbursements of the Utility did not exceed amounts budgeted.

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Prepared in Accordance with
*Government Auditing Standards***

MUXFELDT ASSOCIATES, CPA, P.C.

March 3, 2015

Certified Public Accountant

Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on and Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com

firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

To the Board of Trustees of the
Manning Municipal Gas Department

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Manning Municipal Gas Department as of and for the year ended December 31, 2014, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements and have issued my report thereon dated March 3, 2015. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Manning Municipal Gas Department's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, I do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control that I consider to be a material weakness.

March 3, 2015
Manning Municipal Gas Department
Report on Internal Control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Gas Department's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manning Municipal Gas Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2014 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on test and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Manning Municipal Gas Department's Responses to Findings

Manning Municipal Gas Department's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The Gas Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

March 3, 2015
Manning Municipal Gas Department
Report on Internal Control

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Manning Municipal Gas Department during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Musfeldt Associates, CPA, P.C.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2014**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that a segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with the staff available.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2014**

Part II: Other Findings Related to Statutory Reporting:

- II-A-14 Certified Budget - Total disbursements during the year ended June 30, 2014, did not exceed the amounts budgeted. The Utility adopts an annual budget on the City of Manning's fiscal year ended June 30th but presents the budgetary comparison on the calendar year.
- II-B-14 Questionable Disbursements - I noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-14 Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.
- II-D-14 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ken Spies, Manager, Owner of Spies Fur Co	Supplies	\$ 887

The transactions with the manager and the trustee do not appear to represent conflicts of interest since they did not exceed \$2,500 during the year.

- II-E-14 Bond Coverage - Surety bond coverage of Municipal Utility's officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-G-14 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.

NEWS RELEASE
MANNING MUNICIPAL GAS DEPARTMENT
Manning, Iowa 51455

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the Manning Municipal Gas Department of Manning, Iowa.

Muxfeldt Associates, CPA, P.C, reported that the Utility Board's revenues totaled \$1,501,556 for the year ended December 31, 2014, a 14 percent increase from 2013. The revenues included \$1,476,761 in natural gas sales, \$21,584 in interest income, and \$3,211 in other revenues.

Expenses for the year totaled \$1,308,001, a 27 percent increase from 2013. The expenses included \$778,348 for natural gas, \$149,623 for distribution, \$288,236 for administrative and general expenses and \$91,794 for community programs.

The significant increase in receipts and disbursements is primarily due to increased usage for residential and commercial heating needs during periods of cold.

A copy of the audit report is available for review in the office of Manning Municipal Gas Department, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

